CONNECTICUT BANKERS ASSOCIATION

MARCH 15, 2012

TO: **MEMBERS OF THE BANKS COMMITTEE**

FROM: **CONNECTICUT BANKERS ASSOCIATION**
CONTACTS: TOM MONGELLOW, FRITZ CONWAY

RE: **HB 5418, AN ACT CONCERNING THE MODERNIZATION OF CERTAIN BANKING STATUTES**

POSITION: SUPPORT

HB 5418 would help to clarify, modernize and improve Connecticut banking law through a number of separate and distinct measures.

Section 1 of the Bill would help to reduce the regulatory burden created by certain overlapping state and federal laws (i.e., where both the State and federal regulators want notice concerning certain electronic data processing arrangements). The new provision would, in appropriate circumstances, allow state chartered banks to satisfy the notice requirements under state law by providing the Commissioner with a copy of the notice that is provided to the FDIC under federal law.

Section 2 would amend a Connecticut statutory provision that promotes appraiser independence. Without relaxing the statutory standards, the amendment would harmonize Connecticut law with a separate, newly enacted appraiser independence provision found in the Truth-in-Lending laws.

Sections 3 through 9 would modernize the provisions of Connecticut law that govern public deposits. Among other things, the Bill would remove the requirement to provide collateral for deposits that are *insured* by the FDIC (those deposit balances are guaranteed by the FDIC, so collateral would not be necessary). The Bill would also amend the provisions which allow a depository institution to supply a letter of credit as collateral support for public deposits. Under current law, banks are able to use letters of credit issued by the Federal Home Loan Bank of Boston (as long as that home loan bank remains highly rated). Some banks do not have access to the Federal Home Loan Bank of Boston because they are members of a different regional home loan bank system. The Bill would allow those banks to use the other regional federal home loan banks to issue letters of credit (as long as the home loan bank has the highest rating from a rating agency approved by the Commissioner or the Commissioner otherwise deems the particular home loan bank to be acceptable for such purposes). Finally, the Bill would amend a provision that establishes higher collateral requirements when a depository institution receives an MOU, C&D or other similar agreement, letter or order from a supervisory agency. This provision has the potential to create unnecessary burden and expense when the supervisory event has nothing to do with the safety and soundness of the institution. The CBA is currently in

(860) 677-5060 10 Waterside Drive Farmington, Connecticut 06032-3083 FAX: (860) 677-5066

discussions with the Department of Banking, the Treasurer's office and municipal finance representatives regarding possible amendments to this provision (seeking to reduce unnecessary burden and expense, while maintaining adequate protection for public deposits). The CBA is hopeful that an agreement will be reached, and today we are submitting a substitute version of the Bill to give the Committee a sense of the draft language that is currently under consideration (in particular, see Section 5).

Section 10 of the Bill would provide an exception to the current state law prohibition on so-called "default rates" (i.e., a provision in a mortgage loan that triggers a rate increase upon an event of default). The new exception would be available in connection with the modification or refinancing of troubled loans. It would allow a lender to reduce or eliminate the interest rate (e.g., to provide a lower monthly payment) contingent on the borrower remaining current on the restructured payment obligation. The CBA is submitting substitute language that would, among other things, limit any subsequent increase in the interest rate (i.e., as a result of a payment default) to no more than the original contract interest rate.

We urge the Committee to support this Bill and we would be happy to answer any questions that Committee members may have.